

mercari

Consolidated Financial Results for the Nine Months Ended March 31, 2021 [Japanese GAAP]

April 30, 2021

Company name: Mercari, Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4385

URL: <https://about.mercari.com/en/>

Representative: Shintaro Yamada, Chief Executive Officer

Contact: Jun Yokota, SVP Corporate

Phone: +81-3-6804-6907

Scheduled date of filing quarterly securities report: May 13, 2021

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Available

Schedule of quarterly financial results briefing session: None

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Nine Months Ended March 31, 2021 (the “Period”)

(July 1, 2020 to March 31, 2021)

(1) Consolidated Operating Results (cumulative) (% indicates changes from the previous corresponding period.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|-------------------|-----------------|------|------------------|---|-----------------|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Nine months ended | | | | | | | | |
| March 31, 2021 | 76,901 | 44.1 | 1,528 | - | 1,427 | - | 3,576 | - |
| March 31, 2020 | 53,350 | 42.7 | (20,292) | - | (20,320) | - | (22,212) | - |

(Note) Comprehensive income: Nine months ended March 31, 2021: ¥(422) million [-%]

Nine months ended March 31, 2020: ¥(21,204) million [-%]

| | Basic earnings per share | Diluted earnings per share |
|-------------------|--------------------------|----------------------------|
| Nine months ended | Yen | Yen |
| March 31, 2021 | 22.81 | 21.99 |
| March 31, 2020 | (144.82) | - |

(Note) Information on diluted earnings per share for the nine months ended March 31, 2020 is omitted since, although potential shares exist, the recorded figure was a loss.

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio |
|----------------------|-----------------|-----------------|--------------|
| | Millions of yen | Millions of yen | % |
| As of March 31, 2021 | 247,473 | 37,246 | 14.7 |
| As of June 30, 2020 | 198,014 | 35,368 | 17.6 |

(Reference) Equity: As of March 31, 2021: ¥36,463 million

As of June 30, 2020: ¥34,786 million

English Translation

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2. Dividends

| | Annual dividends | | | | |
|---|------------------|-----------------|-----------------|----------|-------|
| | 1st quarter-end | 2nd quarter-end | 3rd quarter-end | Year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended June 30, 2020 | - | 0.00 | - | 0.00 | 0.00 |
| Fiscal year ending June 30, 2021 | - | 0.00 | - | | |
| Fiscal year ending June 30, 2021 (Forecast) | | | | - | - |

(Note) Revisions to the forecasts of cash dividends most recently announced: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending June 30, 2021 (July 1, 2020 to June 30, 2021)

(% indicates changes from the previous corresponding period.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|----------------------------------|----------------------|----------------|--------------------|---|--------------------|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Fiscal year ending June 30, 2021 | 103,000 - 106,000 | 35.0 - 39.0 | (1,500) - 1,500 | - | (1,600) - 1,400 | - | 0 - 2,100 | - |

(Note) Revisions to the consolidated financial results forecast most recently announced: Yes

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* Notes:

- (1) Changes in significant subsidiaries during the Period (changes in specified subsidiaries resulting in changes in scope of consolidation): No
- (2) Application of special accounting treatments for preparing the quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, and retrospective restatement
 - 1) Changes in accounting policies due to revision of accounting standards: No
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
- (4) Total number of issued shares (common stock)
 - 1) Total number of issued shares at the end of the Period (including treasury stock):

| | |
|-----------------|--------------------|
| March 31, 2021: | 157,643,086 shares |
| June 30, 2020: | 156,150,364 shares |
 - 2) Total number of treasury stock at the end of the Period:

| | |
|-----------------|----------|
| March 31, 2021: | 2 shares |
| June 30, 2020: | 2 shares |
 - 3) Average number of shares during the Period:

| | |
|-----------------------------------|--------------------|
| Nine months ended March 31, 2021: | 156,820,189 shares |
| Nine months ended March 31, 2020: | 153,377,436 shares |

* Quarterly Consolidated Financial Results are exempt from quarterly review conducted by certified public accountants or audit firms.

* Explanation of the proper use of financial results forecast and other notes

The forward-looking statements, including the financial results forecast, contained in these materials are based on information currently available to the Company and certain assumptions deemed reasonable by the Company. As such, they do not constitute guarantees by the Company of future performance. Details concerning the forward-looking statements are stated in “1. Qualitative Information Regarding Results for the Period (3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements” on page 3 of the Appendix.

English Translation

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1. Qualitative Information Regarding Results for the Period

(1) Explanation of Operating Results

The Company and its group companies (collectively, the “Group”) are working to realize the medium-term vision, “Become indispensable to the creation of a circular economy.” In the fiscal year ending June 30, 2021, the Group has continued to work towards this goal, aiming to continue providing services that are loved by a wide range of people while strengthening the soundness and increasing the convenience of those services. Additionally, the Group has resumed investment to achieve sustainable growth and maximize future profits, and GMV is growing steadily for both the *Mercari* Japan business and the *Mercari* US business.

For the *Mercari* Japan business, the Group is continuing to strengthen listings in pursuit of medium- to long-term growth, and by proactively carrying out promotions including invitation campaigns, the Group succeeded in steadily capturing new users during the current period. Furthermore, by pursuing collaboration with other companies, the Group is carrying out growth initiatives in anticipation of the end of the novel coronavirus disease (“COVID-19”) pandemic. As a result, *Mercari*’s GMV in Japan for the nine months ended March 31, 2021, was ¥576.2 billion, an increase of ¥130.8 billion compared with the corresponding period of the previous fiscal year.

With respect to the *Merpay* business and its mobile payment services, the Group has been building asset management services in addition to the payment and credit businesses, which enable users to invest by using their *Merpay* account balances ^(Note 1). In the credit business, users are steadily increasing for the *Merpay Smart Payments (lump-sum payment and fixed-amount payment)* service, and the Group is working to continue strengthening earnings potential. Furthermore, the Group is proactively ensuring a safe and secure usage environment, becoming the first payment service company to launch identity verification and anti-fraud measures that use JPKE ^(Note 2). As a result, the number of *Merpay* users has steadily increased to 9.80 million ^(Note 3).

For the *Mercari* US business, the Group has been working toward increasing brand recognition, capturing new users, and optimizing listing and delivery. This was done as part of the “*Mercari* is your marketplace” initiative, which aims to generate expansion and growth of the *Mercari* marketplace services that make selling a variety of items easier and safer for everyone. In the current period, the business saw success with the payment processing fees introduced in the prior period, and the Group’s unit economics improved. As a result, the GMV of *Mercari* in the US for the nine months ended March 31, 2021, was ¥92.1 billion (the exchange rate conversion is calculated using the average rate during the Period, ¥105.54 against the US dollar), up ¥49.1 billion from the corresponding period of the previous fiscal year.

As a result, for the nine months ended March 31, 2021, the Group recorded net sales of ¥76,901 million (44.1% increase year on year), operating profit of ¥1,528 million (compared to operating loss of ¥20,292 million in the corresponding period of the previous fiscal year), ordinary profit of ¥1,427 million (compared to ordinary loss of ¥20,320 million in the corresponding period of the previous fiscal year), and profit attributable to owners of parent of ¥3,576 million (compared to loss attributable to owners of parent of ¥22,212 million in the corresponding period of the previous fiscal year).

Information by business segment is omitted as the Group operates a single segment—i.e., the marketplace business.

(Note 1) The Group established the subsidiary Mercoin, Inc. on April 28, 2021, to plan and develop services related to crypto-assets and blockchain.

(Note 2) An Individual Number Card public identity verification service that allows identity verification to be completed online based on Japan’s Act on Prevention of Transfer of Criminal Proceeds.

(Note 3) Total number of users registered for *Merpay Electronic Money* and users of *QR Code Payments, Online Payments, and Merpay Smart Payments (lump-sum payment and fixed-amount payment)* as of March 31, 2021 (excluding overlaps). On April 21, 2021, the number surpassed 10 million.

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(2) Explanation of Financial Position

(Assets)

Assets as of March 31, 2021, increased by ¥49,459 million from the end of the previous fiscal year to ¥247,473 million.

The main reasons for increases and decreases are as follows.

- Cash and cash equivalents increased by ¥35,944 million compared with the end of the previous fiscal year. This mainly reflected profit before income taxes of ¥8,288 million with adjustments for a ¥6,942 million gain on sales of investment securities, a ¥24,441 million increase in other receivable, an ¥8,098 million decrease in deposits paid, a ¥30,306 million increase in deposits received, a ¥7,645 million increase in guarantee deposits, a ¥5,260 million decrease in securities, ¥6,942 million in proceeds from sales of investment securities, and an ¥11,846 million increase in short-term borrowings.
- Securities decreased by ¥5,260 million from the end of the previous fiscal year following the redemption of financial instruments held by the Group.
- Other receivables increased by ¥24,441 million compared to the end of the previous fiscal year, primarily due to an increase in use of *Merpay Smart Payments (lump-sum payment and fixed-amount payment)*.
- Deposits paid decreased by ¥8,098 million from the end of the previous fiscal year, primarily due to improvements made to the payment cycle.
- Investment securities decreased by ¥5,735 million from the end of the previous fiscal year, primarily due to the sale of shares held by the Group.
- Guarantee deposits increased by ¥7,645 million from the end of the previous fiscal year, primarily due to deposits paid based on laws and regulations accompanying the increase in the amounts spent on *Mercari* and *Merpay*.

(Liabilities)

Liabilities as of March 31, 2021, increased by ¥47,581 million from the end of the previous fiscal year to ¥210,227 million.

The main reasons for increases and decreases are as follows.

- Short-term borrowings increased by ¥11,846 million from the end of the previous fiscal year, primarily due to the liquidation of advance payment receivables.
- Income taxes payable increased by ¥2,621 million from the end of the previous fiscal year, primarily due to an increase in profit before income taxes.
- Deposits received increased by ¥30,306 million from the end of the previous fiscal year, primarily due to the increase in the amounts spent on *Mercari* and *Merpay*.

(Net assets)

Net assets as of March 31, 2021, increased by ¥1,877 million from the end of the previous fiscal year to ¥37,246 million.

The main reasons for increases and decreases are as follows.

- Capital stock increased by ¥987 million from the end of the previous fiscal year following the issuance of new shares.
- Capital surplus increased by ¥987 million from the end of the previous fiscal year following the issuance of new shares.
- Retained earnings increased by ¥3,576 million from the end of the previous fiscal year due to the recording of profit attributable to owners of parent.
- Valuation difference on available-for-sale securities decreased by ¥3,995 million from the end of the previous fiscal year, primarily due to the sale of shares held by the Group.

(3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements

The Company has disclosed forecasts for the fiscal year ending June 30, 2021 (July 1, 2020 to June 30, 2021), in light of recent trends. For related details, please see “Notice Regarding Full-Year Consolidated and Non-Consolidated Earnings Forecasts for FY2021.6” announced today.

In regard to the impact of the COVID-19 pandemic, it continues to be difficult to accurately predict factors such as the future spread of the disease and the timing of its abatement. When considering outlook for future cash

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flow, future business environment, etc., as of now, it has been judged that although it will have a certain impact on the Company, the effects will be limited. Furthermore, it has been judged that there will be no serious effects on accounting estimates including impairment loss on non-current assets and the recoverability of deferred tax assets. However, as there is a possibility that changes in the situation will have an impact on consolidated financial statements, the Company will continue to watch developments carefully.

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2. Quarterly Consolidated Financial Statements and Primary Notes**(1) Quarterly Consolidated Balance Sheets**

(Millions of yen)

| | As of June 30, 2020 | As of March 31, 2021 |
|---|---------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 135,747 | 171,692 |
| Trade accounts receivable | 1,119 | 2,128 |
| Securities | 5,260 | - |
| Other receivable | 15,612 | 40,054 |
| Prepaid expenses | 1,609 | 2,016 |
| Deposits paid | 9,718 | 1,619 |
| Other current assets | 1,614 | 534 |
| Allowance for doubtful accounts | (1,404) | (1,954) |
| Total current assets | 169,277 | 216,089 |
| Non-current assets | | |
| Property, plant and equipment | 2,905 | 2,611 |
| Intangible assets | 679 | 669 |
| Investments and other assets | | |
| Investment securities | 5,881 | 145 |
| Lease deposits | 2,128 | 1,639 |
| Deferred tax assets | 108 | 1,743 |
| Guarantee deposits | 16,598 | 24,244 |
| Other assets | 435 | 329 |
| Total investments and other assets | 25,151 | 28,102 |
| Total non-current assets | 28,736 | 31,383 |
| Total assets | 198,014 | 247,473 |

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(Millions of yen)

| | As of June 30, 2020 | As of March 31, 2021 |
|---|---------------------|----------------------|
| Liabilities | | |
| Current liabilities | | |
| Short-term borrowings | - | 11,846 |
| Current portion of long-term borrowings | 900 | 400 |
| Cash due to users and other payables | 16,206 | 18,420 |
| Accrued expenses | 861 | 843 |
| Income taxes payable | 1,427 | 4,049 |
| Deposits received | 83,954 | 114,260 |
| Provision for bonuses | 1,314 | 618 |
| Provision for point certificates | 522 | 1,767 |
| Provision for share-based compensation | 177 | 573 |
| Other current liabilities | 4,764 | 5,258 |
| Total current liabilities | 110,128 | 158,039 |
| Non-current liabilities | | |
| Long-term borrowings | 51,547 | 51,246 |
| Retirement benefit liability | 75 | 89 |
| Asset retirement obligations | 126 | 126 |
| Deferred tax liabilities | 191 | 186 |
| Other provisions | 6 | - |
| Other non-current liabilities | 570 | 539 |
| Total non-current liabilities | 52,516 | 52,187 |
| Total liabilities | 162,645 | 210,227 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 41,440 | 42,427 |
| Capital surplus | 41,396 | 42,383 |
| Retained earnings (Accumulated deficit) | (51,870) | (48,293) |
| Treasury stock | (0) | (0) |
| Total shareholders' equity | 30,966 | 36,517 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 3,995 | - |
| Foreign currency translation adjustments | (175) | (53) |
| Total accumulated other comprehensive income | 3,819 | (53) |
| Stock acquisition rights | - | 326 |
| Non-controlling interests | 582 | 456 |
| Total net assets | 35,368 | 37,246 |
| Total liabilities and net assets | 198,014 | 247,473 |

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(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income

(Millions of yen)

| | For the nine months ended March 31, 2020 | For the nine months ended March 31, 2021 |
|---|---|---|
| Net sales | 53,350 | 76,901 |
| Cost of sales | 14,993 | 17,944 |
| Gross profit | 38,356 | 58,956 |
| Selling, general and administrative expenses | 58,649 | 57,427 |
| Operating profit (loss) | (20,292) | 1,528 |
| Non-operating income | | |
| Interest income | 111 | 24 |
| Compensation income | - | 12 |
| Consumption taxes refund | 1 | 19 |
| Foreign exchange gain | 5 | - |
| Other | 39 | 28 |
| Total non-operating income | 158 | 84 |
| Non-operating expenses | | |
| Interest expense | 183 | 175 |
| Foreign exchange loss | - | 0 |
| Other | 2 | 10 |
| Total non-operating expenses | 185 | 186 |
| Ordinary profit (loss) | (20,320) | 1,427 |
| Extraordinary income | | |
| Gain on sales of investment securities | - | 6,942 |
| Other | - | 28 |
| Total extraordinary income | - | 6,970 |
| Extraordinary losses | | |
| Impairment loss | 922 | - |
| Loss on devaluation of investment securities | 204 | 109 |
| Total extraordinary losses | 1,127 | 109 |
| Profit (loss) before income taxes | (21,447) | 8,288 |
| Income taxes | 775 | 4,838 |
| Profit (loss) | (22,223) | 3,450 |
| Profit (loss) attributable to non-controlling interests | (11) | (125) |
| Profit (loss) attributable to owners of parent | (22,212) | 3,576 |

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Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

| | For the nine months ended March 31, 2020 | For the nine months ended March 31, 2021 |
|---|---|---|
| Profit (loss) | (22,223) | 3,450 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,030 | (3,995) |
| Foreign currency translation adjustment | (11) | 122 |
| Total other comprehensive income | 1,019 | (3,873) |
| Comprehensive income | (21,204) | (422) |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | (21,192) | (297) |
| Comprehensive income attributable to non-controlling interests | (11) | (125) |

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(3) Notes to the Quarterly Consolidated Financial Statements

Notes on going concern assumption

Not applicable.

Notes on significant changes in the amount of shareholders' equity

Not applicable.

Application of special accounting treatments for preparing the quarterly consolidated financial statements

Calculation of income tax expense

The Company reasonably estimated the effective tax rate following application of tax effect accounting on profit before income taxes for the fiscal year, which includes the current quarterly period, and applied this percentage to quarterly profit before income taxes to determine income taxes.

Segment information, etc.

Segment information, etc. is omitted as the Group operates a single segment—i.e., the marketplace business.

Significant subsequent events

Not applicable.